

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 EUR-12 EA-07 ISO-00 AID-05 CIAE-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5791

TREASURY DEPT WASHDC

INFO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY TOKYO

AMEMBASSY KINSHASA

C O N F I D E N T I A L LONDON 11001

E.O. 11652: GDS

TAGS: EFIN, CG, UK

SUBJECT: PARIS CLUB MEETING ON ZAIRE

REF: A) LONDON 9828 B) STATE 132820

1. JOHN SLATER, ASSISTANT SECRETARY, TREASURY HAS SENT
FINANCIAL ATTACHE LETTER ON PARIS CLUB MEETING ON ZAIRE.
TEXT FOLLOWS:

2. QUOTE ON THE WHOLE, WE ARE NOT PARTICULARLY ATTRACTED
BY THE IDEA OF RESCHEDULING INTEREST, AS WELL AS PRINCIPAL
FOR THE FIRST HALF OF 1977. WE THINK THAT THIS MAY BE
GOING FURTHER THAN IS NECESSARY, AND THAT IMPOSITION OF
THE PROPOSED CONDITIONS MIGHT MAKE AGREEMENT DIFFICULT AND
EARLY IMPLEMENTATION UNLIKELY. IN OUR VIEW THE AIM SHOULD
BE TO SECURE AGREEMENT AND IMPLEMENTATION AS QUICKLY AS
POSSIBLE. THIS SEEMS PARTICULARLY IMPORTANT IN VIEW OF
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THE TIME IT HAS TAKEN TO CONCLUDE BILATERAL AGREEMENTS FOR
THE 1975/76 MATURITIES: OUR OWN BILATERAL AGREEMENT, FOR
EXAMPLE. HAS STILL NOT BEEN SIGNED. WE ARE, OF COURSE,
A MINOR CREDITOR OF ZAIRE, AND THE EFFECTS OF YOUR PROPO-
SAL UPON OUR CLAIMS WOULD BE RELATIVELY SMALL. NEVERTHE-
LESS' ON PRESENT EVIDENCE WE ARE RATHER DOUBTFUL WHETHER
THERE IS MUCH ADVANTAGE FOR ANYONE IN FOREGOING A FURTHER

6 MONTHS' INTEREST. ON THE AVAILABLE FIGURES, THE TOTAL SAVING FOR ZAIRE WOULD PROBABLY BE ONLY AROUND \$14 MILLION TO \$20 MILLION, COMPARED WITH TOTAL DEBT SERVICE OF \$265 MILLION AND PROJECTED 1977 EXPORT EARNINGS OF AROUND \$1250 MILLION.

OUR OWN INCLINATION, THEREFORE, IS TO STICK TO THE AGREED MINUTE OF THE 1976 PARIS MEETINGS AND TO PARAGRAPH 3 IN RESPECT OF PAYMENT OF INTEREST. WE THINK IT WOULD BE COMPLICATING MATTERS UNDULY AT THIS STAGE TO DECIDE ON RESCHEDULING INTEREST FOR THE FIRST HALF OF 1977 BUT FOR NEITHER THE SECOND HALF OF 1976 NOR THE SECOND HALF OF 1977.

SO FAR AS THE BANKS' PART IN THE DEBT EXERCISE IS CONCERNED, WE ARE GENERALLY SYMPATHETIC TO YOUR VIEWS ABOUT "COMPARABLE" TREATMENT. BUT WE NEVERTHELESS FEEL THAT IT WOULD BE UNREALISTIC TO SEEK TOO CLOSE A PARITY BETWEEN THE TREATMENT OF OFFICIAL AND BANKING DEBTS. THE BANKS REGARDED THE LONDON AGREEMENT AS TANTAMOUNT TO REFINANCING ALL 1975-77 AND SOME 1978 MATURITIES. ADMITTEDLY THE \$250 MILLION LOAN HAS NOT YET GOT OFF THE GROUND; BUT ANY MENTION OF FURTHER RESCHEDULING, FOLLOWING THE INEVITABLE DELAY AFTER THE RECENT HOSTILITIES IN ZAIRE, WOULD UNDOUBTEDLY JEOPARDISE ITS CHANCES OF SUCCESS. OFFICIAL AND BANKING DEBTS ARE NOT OF COURSE DIRECTLY COMPARABLE, AND THEY ARISE FROM LOANS MADE ON DIFFERENT JUDGMENTS. WHILST IT MAY BE POSSIBLE FOR GOVERNMENTS TO

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RESCHEDULE INTEREST, IT IS OUT OF THE QUESTION FOR BANKS AS LONG AS INTEREST IS BEING PAID, NO MATTER HOW OVERDUE THE CAPITAL REPAYMENT, THE LOAN NEED NOT BE WRITTEN OFF. BUT ZAIRE'S REINSTATEMENT AS A CREDIT-WORTHY BORROWER WOULD BE INHIBITED IF THE BANKS HAD TO WRITE-OFF BAD DEBTS

WE THEREFORE SUGGEST SOME SLIGHT TONING DOWN OF THE LINE TAKEN IN YOUR NOTE. (I.E., SUBSTANCE PARAS 2-7 REF B) THERE MIGHT BE NO HARM IN A RIDER STATING THAT WHATEVER AGREEMENT IS REACHED IN PARIS WILL BE OFFICIALLY SIGNED ONLY AFTER THE LOAN IS RAISED; BUT ANYTHING MORE COULD, IN OUR VIEW, JEOPARDISE THE RAISING OF THE LOAN. THE DANGER WE SEE IS THAT IF THE LOAN WERE UNDULY DELAYED AND OFFICIAL RESCHEDULING WITHHELD, ZAIRE WOULD BE UNABLE TO MAKE DEBT PAYMENTS AND WE WOULD ALL BE BACK TO SQUARE ONE.

I SHALL NOT MYSELF BE GOING TO PARIS, BUT BLACKBURN OF ECGD AND MAYES OF THE BANK OF ENGLAND WILL BOTH BE THERE IF YOU OR YOUR PEOPLE WANT TO DISCUSS THIS FURTHER THERE. J.F. SLATER UNQUOTE

BREWSTER

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